

COSTA MESA REDEVELOPMENT AGENCY

Basic Financial Statements
and Supplemental Data

Year ended June 30, 2008

(With Independent Auditors' Report Thereon)

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COSTA MESA REDEVELOPMENT AGENCY
Basic Financial Statements and Supplemental Data
Year ended June 30, 2008

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COSTA MESA REDEVELOPMENT AGENCY
Basic Financial Statements and Supplemental Data
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Board of Directors
Costa Mesa Redevelopment Agency
Costa Mesa, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Costa Mesa Redevelopment Agency (the "Agency"), a component unit of the City of Costa Mesa, California, as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Costa Mesa Redevelopment Agency. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Agency's basic financial statements for the year ended June 30, 2007 and, in our report dated November 6, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Costa Mesa Redevelopment Agency as of June 30, 2008, and the respective changes in financial position of the Costa Mesa Redevelopment Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented *management's discussion and analysis* that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Costa Mesa Redevelopment Agency's basic financial statements. The *required supplementary information* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The *required supplementary information* and *supplementary schedules* are presented for purposes of additional analysis and are also not a required part of the basic financial statements. These *supplementary schedules* have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of Directors
Costa Mesa Redevelopment Agency
Costa Mesa, California
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In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 2008 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wayne Hoffman Melano P.C.

Irvine, California
November 21, 2008

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COSTA MESA REDEVELOPMENT AGENCY

Statement of Net Assets

June 30, 2008

(With Comparative Data for Prior Year)

	Governmental Activities	
	2008	2007
Assets:		
Cash and investments (note 3)	\$ 5,130,245	4,050,691
Cash and investments with fiscal agent (note 3)	706,045	711,982
Due from other governments	24,725	59,166
Due from the City of Costa Mesa	15,000	15,000
Interest receivable (note 10)	1,130,455	1,045,075
Prepaid items	-	3,500
Loans receivable	4,551,760	4,308,969
Rent receivable (note 10)	1,079,985	1,063,025
Loan deposit	904	904
Total assets	<u>12,639,119</u>	<u>11,258,312</u>
Liabilities:		
Accounts payable	93,799	8,619
Interest payable	1,009,347	1,037,215
Due to City of Costa Mesa	46,367	471,384
Long-term liabilities:		
Portion due within one year:		
Advances from the City of Costa Mesa (notes 6 and 8)	384,273	356,001
Bonds payable (notes 6 and 7)	485,000	475,000
Portion due beyond one year:		
Advances from the City of Costa Mesa (notes 6 and 8)	11,296,656	11,680,979
Bonds payable (notes 6 and 7)	5,145,000	5,630,000
Total liabilities	<u>18,460,442</u>	<u>19,659,198</u>
Net assets:		
Restricted for:		
Low and moderate income housing	6,835,407	6,678,403
Unrestricted	<u>(12,656,730)</u>	<u>(15,079,289)</u>
Total net assets (deficit)	<u>\$ (5,821,323)</u>	<u>(8,400,886)</u>

See accompanying notes to the basic financial statements.

COSTA MESA REDEVELOPMENT AGENCY

Statement of Activities

Year ended June 30, 2008

(With Comparative Data for Prior Year)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Governmental Activities</u>	
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>2008</u>	<u>2007</u>
		<u>Services</u>	<u>and Grants</u>	<u>Contributions</u> <u>and Grants</u>		
Governmental activities:						
Redevelopment	\$ 199,206	92,009	-	-	(107,197)	(89,304)
Low and moderate income housing	710,940	-	-	-	(710,940)	(493,156)
Interest expense on long-term debt	824,682	-	-	-	(824,682)	(1,216,091)
Total governmental activities	<u>\$ 1,734,828</u>	<u>92,009</u>	<u>-</u>	<u>-</u>	<u>(1,642,819)</u>	<u>(1,798,551)</u>
General revenues:						
					3,996,875	3,509,484
Property taxes					210,507	233,913
Investment income					15,000	58,301
Miscellaneous					<u>4,222,382</u>	<u>3,801,698</u>
Total general revenues					2,579,563	2,003,147
Change in net assets					(8,400,886)	(10,404,033)
Net assets (deficit) at beginning of year					<u>\$ (5,821,323)</u>	<u>(8,400,886)</u>
Net assets (deficit) at end of year						

See accompanying notes to the basic financial statements.

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FUND FINANCIAL STATEMENTS

COSTA MESA REDEVELOPMENT AGENCY
Governmental Funds
Balance Sheet
June 30, 2008
(With Comparative Data for Prior Year)

	Special Revenue	Debt Service	Capital Projects	Totals	
	Low and Moderate Income Housing	Redevelopment Debt Service	Redevelopment Projects	2008	2007
<u>Assets</u>					
Cash and investments	\$ 1,974,448	2,200,880	954,917	5,130,245	4,050,691
Cash and investments with fiscal agent	-	706,045	-	706,045	711,982
Due from other governments	4,945	19,780	-	24,725	59,166
Due from City of Costa Mesa	-	15,000	-	15,000	15,000
Interest receivable	12,300	18,264	1,099,891	1,130,455	1,045,075
Prepaid items	-	-	-	-	3,500
Loans receivable	4,551,760	-	-	4,551,760	4,308,969
Rent receivable	-	-	1,079,985	1,079,985	1,063,025
Loan deposit	904	-	-	904	904
Advances to other funds (note 4)	368,111	-	-	368,111	736,429
Total assets	<u>\$ 6,912,468</u>	<u>2,959,969</u>	<u>3,134,793</u>	<u>13,007,230</u>	<u>11,994,741</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 50,712	-	43,087	93,799	8,619
Interest payable	-	955,141	-	955,141	980,040
Due to City of Costa Mesa	26,349	-	20,018	46,367	471,384
Advances from other funds (note 4)	-	368,111	-	368,111	736,429
Deferred revenue	4,551,760	-	2,173,168	6,724,928	6,374,302
Total liabilities	<u>4,628,821</u>	<u>1,323,252</u>	<u>2,236,273</u>	<u>8,188,346</u>	<u>8,570,774</u>
Fund balances (deficit):					
Reserved for:					
Prepaid items	-	-	-	-	3,500
Advances to other funds	368,111	-	-	368,111	736,429
Loan deposit	904	-	-	904	904
Unreserved, undesignated - reported in:					
Special revenue fund	1,914,632	-	-	1,914,632	1,632,101
Debt service fund	-	1,636,717	-	1,636,717	1,034,922
Capital projects fund	-	-	898,520	898,520	16,111
Total fund balances (deficit)	<u>2,283,647</u>	<u>1,636,717</u>	<u>898,520</u>	<u>4,818,884</u>	<u>3,423,967</u>
Total liabilities and fund balances	<u>\$ 6,912,468</u>	<u>2,959,969</u>	<u>3,134,793</u>	<u>13,007,230</u>	<u>11,994,741</u>

See accompanying notes to the basic financial statements.

COSTA MESA REDEVELOPMENT AGENCY
Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2008

Fund balances (deficit) of governmental funds \$ 4,818,884

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Long-Term Debt Transactions

Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets:

Advances from the City of Costa Mesa	(11,680,929)
2003 Tax Allocation Bonds	(5,630,000)

Accrued Interest

Accrued liabilities in the Statement of Net Assets differ from the amount reported in governmental funds due to accrued interest on outstanding debt payable. (54,206)

Deferred Revenue

Revenues relating to loans, interest and rents receivable are measurable but not available and, accordingly, are recorded as deferred revenue in the governmental funds under the modified accrual basis of accounting. Revenues are recognized when earned under the full accrual basis of accounting and, accordingly, deferred revenue has been eliminated from the Statement of Net Assets

6,724,928

Net assets (deficit) of governmental activities	<u><u>\$ (5,821,323)</u></u>
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See accompanying notes to the basic financial statements.

COSTA MESA REDEVELOPMENT AGENCY

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2008

(With Comparative Data for Prior Year)

	Special Revenue	Debt Service	Capital Projects		
	Low and Moderate Income Housing	Redevelopment Debt Service	Redevelopment Projects	Totals	
				2008	2007
Revenues:					
Tax increment	\$ 799,375	3,197,500	-	3,996,875	3,509,484
Investment income	68,569	99,447	42,441	210,457	233,913
Miscellaneous	-	15,000	-	15,000	58,301
Rental	-	-	92,009	92,009	87,673
Total revenues	<u>867,944</u>	<u>3,311,947</u>	<u>134,450</u>	<u>4,314,341</u>	<u>3,889,371</u>
Expenditures:					
Current:					
Redevelopment	953,731	-	215,032	1,168,763	885,005
Debt service:					
Principal	-	475,000	-	475,000	789,870
Interest and fiscal charges	-	1,183,652	-	1,183,652	1,218,968
Total expenditures	<u>953,731</u>	<u>1,658,652</u>	<u>215,032</u>	<u>2,827,415</u>	<u>2,893,843</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(85,787)</u>	<u>1,653,295</u>	<u>(80,582)</u>	<u>1,486,926</u>	<u>995,528</u>
Other financing sources (uses):					
Transfers to City of Costa Mesa	-	-	(92,009)	(92,009)	(87,673)
Transfers in (note 4)			1,055,000	1,055,000	506,890
Transfers out (note 4)	-	(1,055,000)	-	(1,055,000)	(506,890)
Total other financing sources (uses)	<u>-</u>	<u>(1,055,000)</u>	<u>962,991</u>	<u>(92,009)</u>	<u>(87,673)</u>
Net change in fund balances	<u>(85,787)</u>	<u>598,295</u>	<u>882,409</u>	<u>1,394,917</u>	<u>907,855</u>
Fund balances at beginning of year	<u>2,369,434</u>	<u>1,038,422</u>	<u>16,111</u>	<u>3,423,967</u>	<u>2,516,112</u>
Fund balances at end of year	<u>\$ 2,283,647</u>	<u>1,636,717</u>	<u>898,520</u>	<u>4,818,884</u>	<u>3,423,967</u>

See accompanying notes to the basic financial statements.

COSTA MESA REDEVELOPMENT AGENCY
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year ended June 30, 2008

Net changes in fund balances - total governmental funds \$ 1,394,917

Amounts reported for governmental activities in the Statement of Activities are different because:

Long-Term Debt Transactions

Repayment of long-term debt principal is an expenditure in governmental funds and, thus, has the effect of reducing fund balances because current financial resources have been used. For the Agency as a whole, however, the principal payments reduce the liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities.

Repayment of Advance to City of Costa Mesa	356,051
Repayment of 2003 Tax Allocation Bonds	475,000

Accrued Interest

The Statement of Net Assets includes accrued interest on long-term debt. The net change in accrued interest for the current period is reported on the Statement of Activities.

2,969

Deferred Revenue

Earned revenue has been deferred in the fund financial statements if it is collectible after the availability period. However, revenue is recognized when earned in the Statement of Activities.

350,626

Changes in net assets of governmental activities	<u>\$ 2,579,563</u>
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See accompanying notes to the basic financial statements.

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COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2008

(1) Summary of Significant Accounting Policies

The accounting policies of the Costa Mesa Redevelopment Agency (the "Agency") conform to generally accepted accounting principles.

(a) Measurement Focus and Basis of Accounting

The *basic financial statements* of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB Pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

Government-wide Financial Statements

Government-wide financial statements display information about the Agency as a whole. The Agency has no business-type activities. These statements include separate columns for the governmental funds of the Agency. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated).

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the *accrual basis of accounting*, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments and payments made by parties outside of the reporting Agency's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(a) Measurement Focus and Basis of Accounting, (Continued)

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements

The underlying accounting system of the Agency is organized and operated on the basis of separate funds. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Fund financial statements for the Agency's governmental funds are presented after the government-wide financial statements. These statements display information about major governmental funds individually and non-major funds in the aggregate for governmental funds. The Agency has no non-major funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collectible within the current period or shortly thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liabilities are incurred.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Noncurrent portions of long-term receivables due to governmental funds are reported on the balance sheet in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

(b) Major Funds

The following have been presented in the accompanying fund financial statements as major funds:

Low and Moderate Income Housing Fund – This special revenue fund is used to account for that portion of the Agency's tax increment revenue or note proceeds that is legally restricted or earmarked for increasing or improving housing for low or moderate income households.

Redevelopment Debt Service Fund – This debt service fund is used to account for that portion of the Agency's tax increment revenue that is set aside for interest and principal payments associated with all debts of the Agency.

Redevelopment Projects Fund – This capital projects fund is used to account for the financial resources for the development and redevelopment of the project areas, including acquisition of properties, cost of site improvements, other costs of benefit to the project area, and the portion of the Agency's tax increment revenue that is legally restricted for increasing or improving housing for low or moderate income households and administrative expenses incurred in sustaining the Agency.

(c) Cash and Investments

Investments are reported in the accompanying statement of net assets at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

The Agency's cash and investments held by fiscal agents are pledged to the payment or security of certain long-term issuances. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make.

The Agency pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

(d) Deferred Revenue

Deferred revenue consists of the outstanding principal and interest on the loan to the Costa Mesa Family Village that is measurable but not considered available to finance current operations. Also included in deferred revenue are outstanding rehabilitation loans for the Rental Rehabilitation Loan Program. Similar to the loan to the Costa Mesa Family Village, these loans are considered to be measurable but not available to finance current operations.

(e) Relationship to the City of Costa Mesa

The Costa Mesa Redevelopment Agency is an integral part of the reporting entity of the City of Costa Mesa. The financial activity of the Agency has been included within the scope of the financial statements of the City because the City Council of the City of Costa Mesa is the governing body and exercises responsibility over the operations of the Agency. Only the financial activity of the Agency is included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Costa Mesa, California.

(f) Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of three years or more.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The range of lives used for depreciation purposes for each capital asset class are as follows:

Office furniture	3-15 years
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(g) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

(2) Creation of the Costa Mesa Redevelopment Agency

The Agency was created by Ordinance No. 72-2 of the Costa Mesa City Council, adopted on January 17, 1972. The Agency was established pursuant to the Community Redevelopment Law of California as codified in Section 33000 of the State of California Health and Safety Code.

The principal objectives of the Agency are to prepare and carry out plans for the improvement, rehabilitation and development of blighted areas within the territorial limits of the City of Costa Mesa. The principal project of the Agency is known as the Downtown Redevelopment Project which was approved by Ordinance No. 73-44 at the meeting of the Costa Mesa City Council on December 24, 1973. The plan was amended to add area No. 2 by Ordinance No. 77-27 approved on July 5, 1977. Ordinance No. 77-36, approved on August 1, 1977, amended the plan to resolve inconsistencies between the plan and the City's general plan and improve the procedures for processing combined Agency and City permits. Ordinance No. 80-22, approved on November 17, 1980, amended the plan to add area No. 3.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments

Cash and investments are classified in the accompanying Statement of Net Assets at June 30, 2008 as follows:

Cash and investments	\$5,130,245
Cash and investments with fiscal agent	<u>706,045</u>
Total	<u>\$5,836,290</u>

Cash and investments at June 30, 2008 consisted of the following:

Deposits	\$ <u>11,495</u>
Money market mutual funds	706,049
State investment pool (LAIF)	<u>5,118,746</u>
Subtotal – investments	<u>5,824,795</u>
Total	<u>\$5,836,290</u>

Investments Authorized by the California Government Code and the Costa Mesa Redevelopment Agency's Investment Policy

The following table identifies the investment types that are authorized for the Costa Mesa Redevelopment Agency and by the California Government Code (or the Costa Mesa Redevelopment Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Costa Mesa Redevelopment Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Costa Mesa Redevelopment Agency, rather than the general provisions of the California Government Code or the Costa Mesa Redevelopment Agency's investment policy.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the Costa Mesa Redevelopment Agency's Investment Policy, (Continued)

Based on state law requirements or investment policy requirements, whichever is more restrictive.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio *</u>	<u>Maximum Investment In One Issuer</u>
Specifically Authorized by Agency's Investment Policy:			
U.S. Treasury Securities	5 Years	None	None
Federal Agency Securities	5 Years	60%	60%
Banker's Acceptances	180 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Commercial Paper	270 days	25%	10%
Medium Term Corporate Notes	5 Years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	10%	None
Local Agency Investment Fund	N/A	None	N/A
Orange County Treasurer's Pool	N/A	35%	None
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 Years	20%	None
Additional Investments Authorized by the California Government Code:			
Local Agency Bonds	5 Years	None	None
JPA Pools (other investment pools)	N/A	None	None

* Exclude amounts held by bond trustee that are not subject to California Government Code Restrictions.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government code or the Costa Mesa Redevelopment Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	30 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Interest-Bearing Time Deposits	None	None	None
Repurchase Agreements	270 Days	None	None
Local Agency Investment Fund	None	None	None
State Obligations	None	None	None
Pre-refunded Municipal Obligations	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Costa Mesa Redevelopment Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Information about the sensitivity of the fair values of the Costa Mesa Redevelopment Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Costa Mesa Redevelopment Agency's investments by maturity:

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Held by Agency:				
State Investment Pool (LAIF)	\$5,118,746	5,118,746	-	-
Held by fiscal agent:				
Money Market Mutual Funds	<u>706,749</u>	<u>706,749</u>	<u>-</u>	<u>-</u>
Total	<u>\$5,824,795</u>	<u>5,824,795</u>	<u>-</u>	<u>-</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Costa Mesa Redevelopment Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating</u>
Held by Agency:			
State Investment Pool (LAIF)	\$5,118,746	N/A	Unrated
Held by Fiscal Agent:			
Money Market Mutual Funds	<u>706,749</u>	AAm	AAA
Total	<u>\$5,824,795</u>		

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Costa Mesa Redevelopment Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by the state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit.) The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Investment in State Investment Pool

The Costa Mesa Redevelopment Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Costa Mesa Redevelopment Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Costa Mesa Redevelopment Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes.

Disclosures by Reporting Unit

The Costa Mesa Redevelopment Agency (including amounts held by bond trustee) had no items requiring disclosure as of June 30, 2008.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(4) Interfund Advances and Transfers

Interfund advances at June 30, 2008 are recorded between the following Agency funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Low and Moderate Income Housing Fund	Redevelopment Debt Service Fund	<u>\$368,111</u>

The \$368,111 advance payable from the Redevelopment Debt Service Fund is due to the Low and Moderate Income Housing Fund. The amount due to the Low and Moderate Income Housing Fund has no stipulated repayment terms and no stated interest rate.

Interfund transfers at June 30, 2008 are recorded between the following Agency funds:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Redevelopment Capital Projects	Redevelopment Debt Service	<u>\$1,055,000</u>

The \$1,055,000 transfer from the Redevelopment Debt Service Fund to the Redevelopment Capital Projects fund is to cover expenditures incurred by the Capital Projects fund.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(5) Capital Assets

A summary of changes in capital assets for the year ended June 30, 2008 is as follows:

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2008</u>
<u>Governmental Activities</u>				
Capital assets being depreciated:				
Office furniture	\$23,064	-	-	23,064
Total capital assets being depreciated	<u>23,064</u>	<u>-</u>	<u>-</u>	<u>23,064</u>
Less accumulated depreciation for:				
Office furniture	(23,064)	-	-	(23,064)
Total accumulated depreciation	<u>(23,064)</u>	<u>-</u>	<u>-</u>	<u>(23,064)</u>
Total capital assets being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Governmental activities capital assets, net	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

There was no depreciation expense for the year ended June 30, 2008.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance at July 1, 2007	Additions	Reductions	Balance at June 30, 2008	Portion Due Within One Year	Portion Due Beyond One Year
Bonds:						
2003 Tax Allocation Refunding Bonds	\$ 6,105,000	-	(475,000)	5,630,000	485,000	5,145,000
Advances from the City of Costa Mesa	<u>12,036,980</u>	<u>-</u>	<u>(356,051)</u>	<u>11,680,929</u>	<u>384,273</u>	<u>11,296,656</u>
Total	<u>\$18,141,980</u>	<u>-</u>	<u>(831,051)</u>	<u>17,310,929</u>	<u>869,273</u>	<u>16,441,656</u>

(7) Bonds Payable

On October 1, 2003, the Costa Mesa Redevelopment Agency issued \$7,470,000 Tax Allocation Refunding Bonds to refund the remaining \$9,955,000 Downtown Redevelopment Project 1993 Tax Allocation Refunding Bonds. The bonds issued consist of serial bonds maturing from 2004 to 2017 in annual installments ranging from \$450,000 to \$670,000. Interest is payable on April 1 and October 1, commencing on April 1, 2004 at rates ranging from 2.0% to 5.0%. Bonds maturing on or after October 1, 2014 are subject to optional redemption, in whole or in part from among maturities as selected by the Agency on October 1, 2013. The bonds are secured by tax revenue. The net proceeds of \$7,416,738 (after payment of \$275,700 in underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on these bonds. As a result, the 1993 Series bonds were considered to be defeased and the liability for those bonds was removed from the government-wide statement of net assets.

The amount required for the bond reserve for the 2003 Tax Allocation Refunding Bonds is \$704,300. The City has \$706,745 on reserve with the fiscal agent at June 30, 2008. The principal balance outstanding at June 30, 2008 is \$5,630,000.

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(7) Bonds Payable, (Continued)

The annual minimum requirements to amortize the 2003 Tax Allocation Refunding Bonds are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 485,000	210,762
2010	495,000	197,275
2011	510,000	182,200
2012	525,000	165,362
2013	545,000	145,276
2014	565,000	123,075
2015	590,000	100,712
2016	610,000	77,450
2017	635,000	49,375
2018	<u>670,000</u>	<u>16,750</u>
Total	<u>\$5,630,000</u>	<u>1,268,237</u>

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(8) Advances from the City of Costa Mesa

The City of Costa Mesa has loaned the Agency a total of \$11,680,929 as of June 30, 2008. A portion of the loan totaling \$11,504,166 from the City's General Fund bears interest at a rate of 8% per year. The remaining portion totaling \$176,763 is a loan from the City's Community Development Block Grant that bears interest at a rate of 3% per year. Repayment of the loans is not expected in the forthcoming year.

The annual minimum requirements to amortize loans payable to the City of Costa Mesa are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 384,273	925,636
2010	414,769	895,139
2011	447,698	862,210
2012	483,254	826,654
2013	521,647	788,262
2014	563,103	746,806
2015	607,867	702,042
2016	656,204	653,705
2017	708,399	601,510
2018	764,760	545,149
2019	825,621	484,288
2020	891,341	418,567
2021	962,310	347,599
2022	1,038,945	270,964
2023	1,121,701	188,208
2024	1,211,066	98,843
2025	7,865	2,339
2026	8,101	2,103
2027	8,344	1,860
2028	8,594	1,610
2029	8,852	1,352
2030	9,118	1,086
2031	9,391	813
2032	9,673	531
2033	8,033	241
Total	<u>\$11,680,929</u>	<u>9,367,517</u>

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(9) Debt Without Government Commitment

The following bond issue is not reflected in the Agency's long-term debt since it is a special obligation of private parties (with no government commitment) payable entirely from and secured by non-Agency resources described in the bond resolution:

On October 1, 1994, the Agency issued \$3,500,000 of Variable Rate Demand Multi-Family Housing Revenue Bonds, 1994 Series A, to advance refund the 1984 Multi-Family Housing Revenue Bonds and to make a loan to the Costa Mesa Family Village (the Developer). The bonds were issued under and secured by an indenture of trust by and between the Agency and First Trust of California National Association as trustee. The Bonds were issued in denominations of \$100,000 and are due November 1, 2014. The outstanding balance at June 30, 2008 was approximately \$3,200,000.

(10) Costa Mesa Family Village Rent Receivable

The Redevelopment Agency records a rent receivable and accumulated interest based on a "Ground Lease" with Costa Mesa Family Village. In November, 1984, the Costa Mesa Family Village and the Agency entered into a "Parcel 3 Ground Lease". The Ground Lease provided for the lease of certain real property to the Family Village and the development of certain multi-family rental housing. The term of the lease between the Family Village and the Agency is 55 years.

Under the terms of the lease, Family Village shall pay the Agency each lease year an amount equal to the greater of 8% of the annual gross receipts or \$27,000, which is considered current rent. An amount is also calculated as deferred rent and this is the amount by which \$108,000 exceeds the calculated lease payment. This additional amount is accumulated rent and is considered deferred rent and accrues interest at a compounding rate. The Family Village must pay the accumulated deferred rent plus any accrued interest only if the properties are re-financed, sold or transferred to another owner. At June 30, 2008, the Family Village accumulated rent is \$1,079,985 and the accrued interest is \$1,099,891.

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REQUIRED SUPPLEMENTARY INFORMATION

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COSTA MESA REDEVELOPMENT AGENCY
Low and Moderate Income Housing Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Year ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Tax increment	\$ 688,895	688,895	799,375	110,480	701,897
Investment income	6,889	6,889	68,569	61,680	78,285
Miscellaneous	-	-	-	-	43,301
Total revenues	<u>695,784</u>	<u>695,784</u>	<u>867,944</u>	<u>172,160</u>	<u>823,483</u>
Expenditures:					
Current:					
Redevelopment	<u>439,672</u>	<u>394,031</u>	<u>953,731</u>	<u>(559,700)</u>	<u>692,024</u>
Total expenditures	<u>439,672</u>	<u>394,031</u>	<u>953,731</u>	<u>(559,700)</u>	<u>692,024</u>
Net change in fund balances	256,112	301,753	(85,787)	(387,540)	131,459
Fund balances at beginning of year	<u>2,369,434</u>	<u>2,369,434</u>	<u>2,369,434</u>	<u>-</u>	<u>2,237,975</u>
Fund balances at end of year	<u>\$ 2,625,546</u>	<u>2,671,187</u>	<u>2,283,647</u>	<u>(387,540)</u>	<u>2,369,434</u>

COSTA MESA REDEVELOPMENT AGENCY

Notes to the Required Supplementary Information

Year ended June 30, 2008

(1) Budgetary Reporting

The Agency adopted an annual budget prepared on the modified accrual basis for the Low and Moderate Housing, Redevelopment Debt Service and Redevelopment Projects Funds, which is consistent with generally accepted accounting principles.

(2) Expenditures in Excess of Appropriations

The Low and Moderate Income Housing Fund had an excess of expenditures over appropriations of \$559,700 at June 30, 2008.

SUPPLEMENTARY SCHEDULES

COSTA MESA REDEVELOPMENT AGENCY
Redevelopment Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Year ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Tax increment	\$ 2,755,581	2,755,581	3,197,500	441,919	2,807,587
Investment income	10,000	10,000	99,447	89,447	144,942
Miscellaneous	25,510	25,510	15,000	(10,510)	15,000
Total revenues	<u>2,791,091</u>	<u>2,791,091</u>	<u>3,311,947</u>	<u>520,856</u>	<u>2,967,529</u>
Expenditures:					
Debt service:					
Principal	1,199,346	1,199,346	475,000	724,346	789,870
Interest and fiscal charges	<u>1,182,644</u>	<u>1,182,644</u>	<u>1,183,652</u>	<u>(1,008)</u>	<u>1,218,968</u>
Total expenditures	<u>2,381,990</u>	<u>2,381,990</u>	<u>1,658,652</u>	<u>723,338</u>	<u>2,008,838</u>
Excess (deficiency) of revenues over (under) expenditures	<u>409,101</u>	<u>409,101</u>	<u>1,653,295</u>	<u>1,244,194</u>	<u>958,691</u>
Other financing sources and (uses):					
Transfer to other funds	<u>(1,055,000)</u>	<u>(1,055,000)</u>	<u>(1,055,000)</u>	<u>-</u>	<u>(506,890)</u>
Total other financing sources and (uses)	<u>(1,055,000)</u>	<u>(1,055,000)</u>	<u>(1,055,000)</u>	<u>-</u>	<u>(506,890)</u>
Net change in fund balances	<u>(645,899)</u>	<u>(645,899)</u>	<u>598,295</u>	<u>1,244,194</u>	<u>451,801</u>
Fund balances at beginning of year	<u>1,038,422</u>	<u>1,038,422</u>	<u>1,038,422</u>	<u>-</u>	<u>586,621</u>
Fund balances at end of year	<u>\$ 392,523</u>	<u>392,523</u>	<u>1,636,717</u>	<u>1,244,194</u>	<u>1,038,422</u>

COSTA MESA REDEVELOPMENT AGENCY
Redevelopment Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Year ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Rental	\$ 103,669	103,669	92,009	(11,660)	87,673
Investment income	-	-	42,441	42,441	10,686
Total revenues	<u>103,669</u>	<u>103,669</u>	<u>134,450</u>	<u>30,781</u>	<u>98,359</u>
Expenditures:					
Current:					
Redevelopment	<u>286,519</u>	<u>292,481</u>	<u>215,032</u>	<u>77,449</u>	<u>192,981</u>
Total expenditures	<u>286,519</u>	<u>292,481</u>	<u>215,032</u>	<u>77,449</u>	<u>192,981</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(182,850)</u>	<u>(188,812)</u>	<u>(80,582)</u>	<u>108,230</u>	<u>(94,622)</u>
Other financing sources and (uses):					
Transfers from other funds	-	-	1,055,000	1,055,000	506,890
Transfers to City of Costa Mesa	<u>(103,669)</u>	<u>(103,669)</u>	<u>(92,009)</u>	<u>11,660</u>	<u>(87,673)</u>
Total other financing sources and (uses)	<u>(103,669)</u>	<u>(103,669)</u>	<u>962,991</u>	<u>1,066,660</u>	<u>419,217</u>
Net changes in fund balances	<u>(286,519)</u>	<u>(292,481)</u>	<u>882,409</u>	<u>1,174,890</u>	<u>324,595</u>
Fund balances (deficit) at beginning of year	<u>16,111</u>	<u>16,111</u>	<u>16,111</u>	<u>-</u>	<u>(308,484)</u>
Fund balances (deficit) at end of year	<u><u>\$(270,408)</u></u>	<u><u>(276,370)</u></u>	<u><u>898,520</u></u>	<u><u>1,174,890</u></u>	<u><u>16,111</u></u>

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Board of Directors
Costa Mesa Redevelopment Agency
Costa Mesa, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

We have audited the basic financial statements of the Costa Mesa Redevelopment Agency as of and for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Costa Mesa Redevelopment Agency are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Comptroller Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Costa Mesa Redevelopment Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Board of Directors
Costa Mesa Redevelopment Agency
Costa Mesa, California

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the Board of Directors, management of the Agency and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Morgan Hoffmann CPA A.C.

Irvine, California
November 21, 2008

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